ARC DOCUMENT SOLUTIONS, INC.
Form 10-Q
November 03, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-32407

ARC DOCUMENT SOLUTIONS, INC.
(Exact name of Registrant as specified in its Charter)

Delaware	20-1700361
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1981 N. Broadway, Suite 385
Walnut Creek, California 94596
(925) 949-5100
(Address, including zip code, and telephone number, including area code, of Registrant’s principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,”and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨	Accelerated filer ý
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨
	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No ý

As of October 27, 2017, there were 46,457,281 shares of the issuer’s common stock outstanding.

ARC DOCUMENT SOLUTIONS, INC.
Form 10-Q
For the Quarter Ended September 30, 2017
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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains statements that are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. When used in this Form 10-Q, the words “believe,” “expect,” “anticipate,” “estimate,” “intend,” “plan,” “project,” “target,” “likely,” “will,” “would,” “could,” and variations of such words a expressions as they relate to our management or to ARC Document Solutions, Inc. (the “Company”) are intended to identify forward-looking statements. These forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those contemplated herein. We have described in Part II, Item 1A-“Risk Factors” a number of factors that could cause our actual results to differ from our projections or estimates. These factors and other risk factors described in this Form 10-Q are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements. Other unknown or unpredictable factors also could harm our results. Consequently, there can be no assurance that the actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, us. Given these uncertainties, you are cautioned not to place undue reliance on such forward-looking statements.

Except where otherwise indicated, the statements made in this Form 10-Q are made as of the date we filed this report with the Securities and Exchange Commission and should not be relied upon as of any subsequent date. All future written and verbal forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We undertake no obligation, and specifically disclaim any obligation, to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. You should, however, consult further disclosures we make in future filings of our Forms 10-K, Forms 10-Q, and Forms 8-K, and any amendments thereto, as well as our proxy statements.

PART I—FINANCIAL INFORMATION
Item 1. Condensed Consolidated Financial Statements
ARC DOCUMENT SOLUTIONS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In thousands, except per share data)	September 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 26,363	$ 25,239
Accounts receivable, net of allowances for accounts receivable of $2,495 and $2,060	59,006	59,735
Inventories, net	19,095	18,184
Prepaid expenses	5,008	3,861
Other current assets	5,034	4,785
Total current assets	114,506	111,804
Property and equipment, net of accumulated depreciation of $205,435 and $201,192	65,645	60,735
Goodwill	121,051	138,688
Other intangible assets, net	10,087	13,202
Deferred income taxes	41,364	42,667
Other assets	2,590	2,185
Total assets	$ 355,243	$ 369,281
Liabilities and Equity		
Current liabilities:		
Accounts payable	$ 25,027	$ 24,782
Accrued payroll and payroll-related expenses	10,908	12,219
Accrued expenses	15,041	16,138
Current portion of long-term debt and capital leases	20,268	13,773
Total current liabilities	71,244	66,912
Long-term debt and capital leases	128,917	143,400
Other long-term liabilities	3,329	2,148
Total liabilities	203,490	212,460
Commitments and contingencies (Note 6)		
Stockholders' equity:		
ARC Document Solutions, Inc. stockholders' equity:		
Preferred stock, $0.001 par value, 25,000 shares authorized; 0 shares issued and outstanding	—	—
Common stock, $0.001 par value, 150,000 shares authorized; 47,891 and 47,428 shares issued and 46,451 and 45,988 shares outstanding	48	47
Additional paid-in capital	120,204	117,749
Retained earnings	32,681	41,822
Accumulated other comprehensive loss	(2,545)	(3,793)
	150,388	155,825
Less cost of common stock in treasury, 1,440 shares	5,909	5,909
Total ARC Document Solutions, Inc. stockholders' equity	144,479	149,916
Noncontrolling interest	7,274	6,905
Total equity	151,753	156,821
Total liabilities and equity	$ 355,243	$ 369,281

The accompanying notes are an integral part of these condensed consolidated financial statements.

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ARC DOCUMENT SOLUTIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands, except per share data)	2017	2016	2017	2016
Service sales	$85,625	$89,178	$262,459	$272,394
Equipment and supplies sales	10,833	11,265	35,010	35,369
Total net sales	96,458	100,443	297,469	307,763
Cost of sales	67,231	67,713	202,918	204,904
Gross profit	29,227	32,730	94,551	102,859
Selling, general and administrative expenses	25,843	24,893	76,540	76,752
Amortization of intangible assets	1,053	1,160	3,250	3,705
Goodwill impairment	17,637	—	17,637	73,920
Restructuring expense	—	—	—	7
(Loss) income from operations	(15,306)	6,677	(2,876)	(51,525)
Other income, net	(19)	(16)	(60)	(54)
Loss on extinguishment and modification of debt	124	66	230	156
Interest expense, net	1,530	1,563	4,679	4,535
(Loss) income before income tax (benefit) provision	(16,941)	5,064	(7,725)	(56,162)
Income tax (benefit) provision	(2,174)	2,162	1,574	(5,884)
Net (loss) income	(14,767)	2,902	(9,299)	(50,278)
Income attributable to the noncontrolling interest	(7)	(61)	(55)	(211)
Net (loss) income attributable to ARC Document Solutions, Inc. shareholders	$(14,774)	$2,841	$(9,354)	$(50,489)
(Loss) earnings per share attributable to ARC Document Solutions, Inc. shareholders:				
Basic	$(0.32)	$0.06	$(0.20)	$(1.10)
Diluted	$(0.32)	$0.06	$(0.20)	$(1.10)
Weighted average common shares outstanding:				
Basic	45,834	45,599	45,756	46,055
Diluted	45,834	46,189	45,756	46,055

The accompanying notes are an integral part of these condensed consolidated financial statements.

ARC DOCUMENT SOLUTIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2017	2016	2017	2016
Net (loss) income	$(14,767)	$2,902	$(9,299)	$(50,278)
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustments, net of tax	681	(250)	1,421	(873)
Fair value adjustment of derivatives, net of tax	55	47	141	(50)
Other comprehensive income (loss), net of tax	736	(203)	1,562	(923)
Comprehensive (loss) income	(14,031)	2,699	(7,737)	(51,201)
Comprehensive income attributable to noncontrolling interest	149	36	369	22
Comprehensive (loss) income attributable to ARC Document Solutions, Inc. shareholders	$(14,180)	$2,663	$(8,106)	$(51,223)

The accompanying notes are an integral part of these condensed consolidated financial statements.

ARC DOCUMENT SOLUTIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited)

	ARC Document Solutions, Inc. Shareholders							
	Common Stock				Accumulated			
(In thousands, except per share data)	Shares	Par Value	Additional Paid-in Capital	Retained Earnings	Other Comprehensive Loss	Common Stock in Treasury	Noncontrolling Interest	Total
Balance at December 31, 2015	47,130	$ 47	$ 115,089	$ 89,687	$ (2,097)	$ (612)	$ 7,020	$ 209,134
Stock-based compensation	229	—	2,073	—	—	—	—	2,073
Issuance of common stock under Employee Stock Purchase Plan	28	—	96	—	—	—	—	96
Stock options exercised	28	—	76	—	—	—	—	76
Tax deficiency from stock-based compensation			(70)					(70)
Treasury shares	—	—	—	—	—	(5,297)	—	(5,297)
Comprehensive loss:								
Net (loss) income	—	—	—	(50,489)	—	—	211	(50,278)
Foreign currency translation adjustments, net of tax	—	—	—	—	(684)	—	(189)	(873)
Fair value adjustment of derivatives, net of tax	—	—	—	—	(50)	—	—	(50)
Comprehensive loss								(51,201)
Balance at September 30, 2016	47,415	$ 47	$ 117,264	$ 39,198	$ (2,831)	$ (5,909)	$ 7,042	$ 154,811

	ARC Document Solutions, Inc. Shareholders							
	Common Stock				Accumulated			
(In thousands, except per share data)	Shares	Par Value	Additional Paid-in Capital	Retained Earnings	Other Comprehensive Loss	Common Stock in Treasury	Noncontrolling Interest	Total
Balance at December 31, 2016	47,428	$ 47	$ 117,749	$ 41,822	$ (3,793)	$ (5,909)	$ 6,905	$ 156,821
Stock-based compensation	403	1	2,250	—	—	—	—	2,251
ASU 2016-09 adoption adjustment	—	—	29	213	—	—	—	242
Issuance of common stock under Employee Stock Purchase Plan	33	—	103	—	—	—	—	103
Stock options exercised	27	—	73	—	—	—	—	73
Comprehensive loss:								
Net (loss) income	—	—	—	(9,354)	—	—	55	(9,299)
Foreign currency translation adjustments, net of tax	—	—	—	—	1,107	—	314	1,421
Fair value adjustment of derivatives, net of tax	—	—	—	—	141	—	—	141
Comprehensive loss								(7,737)
Balance at September 30, 2017	47,891	$ 48	$ 120,204	$ 32,681	$ (2,545)	$ (5,909)	$ 7,274	$ 151,753

The accompanying notes are an integral part of these condensed consolidated financial statements.

ARC DOCUMENT SOLUTIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2017	2016	2017	2016
Cash flows from operating activities				
Net (loss) income	$(14,767)	$2,902	$(9,299)	$(50,278)
Adjustments to reconcile net (loss) income to net cash provided by operating activities:				
Allowance for accounts receivable	306	324	867	644
Depreciation	7,377	6,697	21,787	20,032
Amortization of intangible assets	1,053	1,160	3,250	3,705
Amortization of deferred financing costs	69	111	246	344
Goodwill impairment	17,637	—	17,637	73,920
Stock-based compensation	699	650	2,251	2,073
Deferred income taxes	(2,380)	2,299	1,045	(6,018)
Deferred tax valuation allowance	454	(1)	488	(16)
Loss on extinguishment and modification of debt	124	66	230	156
Other non-cash items, net	(205)	(87)	(340)	(540)
Changes in operating assets and liabilities:				
Accounts receivable	554	(897)	406	(2,285)
Inventory	(142)	(429)	(650)	(3,196)
Prepaid expenses and other assets	1,029	1,179	(1,129)	513
Accounts payable and accrued expenses	(482)	(1,811)	(33)	(5,008)
Net cash provided by operating activities	11,326	12,163	36,756	34,046
Cash flows from investing activities				
Capital expenditures	(2,335)	(2,430)	(7,246)	(7,580)
Other	72	135	466	842
Net cash used in investing activities	(2,263)	(2,295)	(6,780)	(6,738)
Cash flows from financing activities				
Proceeds from stock option exercises	2	46	73	76
Proceeds from issuance of common stock under Employee Stock Purchase Plan	37	26	103	96
Share repurchases	—	(200)	—	(5,297)
Contingent consideration on prior acquisitions	(63)	(86)	(214)	(453)
Early extinguishment of long-term debt	—	(7,000)	(14,150)	(16,000)
Payments on long-term debt agreements and capital leases	(52,146)	(3,310)	(60,060)	(9,651)
Borrowings under revolving credit facilities	52,350	—	54,850	—
Payments under revolving credit facilities	(9,375)	—	(9,675)	—
Payment of deferred financing costs	(270)	(76)	(270)	(106)
Net cash used in financing activities	(9,465)	(10,600)	(29,343)	(31,335)
Effect of foreign currency translation on cash balances	161	(80)	491	(296)
Net change in cash and cash equivalents	(241)	(812)	1,124	(4,323)
Cash and cash equivalents at beginning of period	26,604	20,452	25,239	23,963
Cash and cash equivalents at end of period	$26,363	$19,640	$26,363	$19,640
Supplemental disclosure of cash flow information				

Noncash investing and financing activities				
Capital lease obligations incurred	$6,404	$3,738	$20,714	$12,345
Contingent liabilities in connection with acquisition of businesses	$—	$—	$27	$85

The accompanying notes are an integral part of these condensed consolidated financial statements.

ARC DOCUMENT SOLUTIONS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share data or where otherwise noted)
(Unaudited)

1. Description of Business and Basis of Presentation

ARC Document Solutions, Inc. (“ARC Document Solutions,” “ARC” or the “Company”) is a leading document solutions provider to architectural, engineering, construction, and facilities management professionals, while also providing document solutions to businesses of all types. ARC offers a variety of services including: Construction Document Information Management ("CDIM"), Managed Print Services ("MPS"), and Archive and Information Management ("AIM"). In addition, ARC also sells Equipment and Supplies. The Company conducts its operations through its wholly-owned operating subsidiary, ARC Document Solutions, LLC, a Texas limited liability company, and its affiliates.

Basis of Presentation

The accompanying interim Condensed Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and in conformity with the requirements of the Securities and Exchange Commission (SEC). As permitted under those rules, certain footnotes or other financial information required by GAAP for complete financial statements have been condensed or omitted. In management’s opinion, the accompanying interim Condensed Consolidated Financial Statements presented reflect all adjustments of a normal and recurring nature that are necessary to fairly present the interim Condensed Consolidated Financial Statements. All material intercompany accounts and transactions have been eliminated in consolidation. The operating results for the three and nine months ended September 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the interim Condensed Consolidated Financial Statements and accompanying notes. The Company evaluates its estimates and assumptions on an ongoing basis and relies on historical experience and various other factors that it believes to be reasonable under the circumstances to determine such estimates. Actual results could differ from those estimates, and such differences may be material to the interim Condensed Consolidated Financial Statements.

These interim Condensed Consolidated Financial Statements and accompanying notes should be read in conjunction with the consolidated financial statements and notes included in the Company’s 2016 Form 10-K.

Correction to 2016 Financial Statements

Subsequent to the issuance of the Company's 2016 Consolidated Financial Statements, management identified an immaterial error in the balance sheet presentation of the Company's deferred tax assets and liabilities as of December 31, 2016. In its 2016 Consolidated Financial Statements, the Company presented its deferred taxes on a gross basis; however, such deferred taxes should have been presented on a net basis by taxing jurisdiction in accordance with Accounting Standards Codification (ASC) 740, Income Taxes. As a result of the error, the Company has corrected the deferred tax assets and deferred tax liabilities balances as of December 31, 2016 in the accompanying Condensed Consolidated Balance Sheets. The correction resulted in a decrease to the Company's deferred tax liabilities balance of $30.3 million with a corresponding decrease of the same amount to the Company's deferred tax assets balance as of December 31, 2016. This correction had no impact to the Company's previously reported Consolidated Statements of Operations, Consolidated Statements of Comprehensive Income (Loss), Consolidated Statements of Equity, Consolidated Statements of Cash Flows, or Notes to the Consolidated Financial Statements. The Company has concluded that the error correction was not material to the Consolidated Financial Statements.

Recent Accounting Pronouncements

In January 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2017-04, Intangibles-Goodwill and Other (Topic 350) - Simplifying the Test for Goodwill Impairment. The new guidance simplifies subsequent goodwill measurement by eliminating step two from the goodwill impairment test. Accordingly, the Company is required to perform its annual, or interim, goodwill impairment tests by comparing the fair value of a reporting unit with its respective carrying value, and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The new standard is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2019 with early adoption permitted for interim or annual goodwill impairment tests performed after January 1, 2017. The Company elected to early-adopt ASU 2017-04 for its annual goodwill impairment test as of September 30, 2017. See Note 3, “Goodwill and Other Intangibles” for further information regarding the process of assessing goodwill impairment and the results of the Company's 2017 annual goodwill impairment test.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments. The new guidance addresses diversity in practice for classification of certain transactions in the statement of cash flows including, but not limited to: debt prepayment or debt extinguishment costs, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, and distributions received from equity method investees. ASU 2016-15 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted. The Company is currently in the process of evaluating the impact of the adoption of ASU 2016-15 on its Condensed Consolidated Financial Statements.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting. The new guidance requires excess tax benefits and tax deficiencies to be recorded in the statement of operations when share-based awards vest or are settled. In addition, cash flows related to excess tax benefits will no longer be separately classified as a financing activity apart from other income tax cash flows. The standard also allows the Company to repurchase more of an employee’s shares for tax withholding purposes without triggering liability accounting, clarifies that all cash payments made on an employee’s behalf for withheld shares should be presented as a financing activity on the Company's statement of cash flows, and provides an accounting policy election to account for forfeitures as they occur. The Company adopted ASU 2016-09 on January 1, 2017, which resulted in a cumulative adjustment to equity of $0.2 million. In conjunction with the adoption of ASU 2016-09, the Company elected to account for forfeitures of share-based awards when they occur.

In February 2016, the FASB issued Accounting Standards Codification (“ASC”) 842 (“ASC 842”), Leases. ASC 842 requires a dual approach for lessee accounting under which a lessee would account for leases as finance leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing a right-of-use (ROU) asset and a corresponding lease liability. For finance leases the lessee would recognize interest expense and amortization of the ROU asset and for operating leases the lessee would recognize a straight-line total lease expense. ASC 842 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. Early adoption is permitted. While the Company is continuing to assess the potential impacts that ASC 842 will have on its condensed consolidated financial statements, the Company believes that the most significant impact relates to its accounting for facility leases related to its service centers and office space, which are currently classified as operating leases. The resulting impact of the adoption of ASC 842 will be an increase to assets and a corresponding increase to liabilities for the same amount on the Company's consolidated balance sheet. The Company expects the accounting for capital leases related to its machinery and equipment will remain substantially unchanged under the new standard.

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory. The new guidance requires that inventory be measured at the lower of cost or net realizable value and amends existing guidance which requires inventory be measured at the lower of cost or market. Replacing the concept of market with the single measurement of net realizable value is intended to create efficiencies for financial statement preparers. ASU 2015-11 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The Company adopted ASU 2015-11 on January 1, 2017. The adoption of ASU 2015-11 did not have a material impact on its Condensed Consolidated Financial Statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The new guidance requires entities to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received in exchange for those goods or services. In addition, ASU 2014-09 provides guidance on the recognition of costs related to obtaining and fulfilling customer contracts. The new guidance is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period.

The Company will adopt the new standard on January 1, 2018 under the modified retrospective method and expects the cumulative effect adjustment in retained earnings as of adoption date to be minimal. While the Company is continuing to finalize its ASU 2014-09 assessment and the resulting impact the adoption will have on its consolidated financial statements, the Company does not expect the adoption will have a material impact to its consolidated financial statements.

The Company has performed an analysis of each of its service revenue categories (CDIM, MPS and AIM) to identify any differences in the recognition, measurement, or presentation of revenue recognition and related costs. In addition, the Company is analyzing its product revenue category (equipment and supplies sales). Based on its preliminary analyses, the Company expects the pattern of revenue recognition and the costs to acquire customer contracts to remain consistent with the Company's current revenue recognition policy. The Company is also analyzing detailed disclosure requirements as well as any changes to the Company’s systems and internal controls to support adoption of the new standard.

Segment Reporting

The provisions of ASC 280, Segment Reporting, require public companies to report financial and descriptive information about their reportable operating segments. The Company identifies operating segments based on the various business activities that earn revenue and incur expense and whose operating results are reviewed by the Company's Chief Executive Officer, who is the Company's chief operating decision maker. Because its operating segments have similar products and services, classes of customers, production processes, distribution methods and economic characteristics, the Company operates as a single reportable segment.

Net sales of the Company’s principal services and products were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Service Sales				
CDIM	$50,089	$53,228	$155,031	$161,753
MPS	32,153	32,796	97,697	100,082
AIM	3,383	3,154	9,731	10,559
Total service sales	85,625	89,178	262,459	272,394
Equipment and supplies sales	10,833	11,265	35,010	35,369
Total net sales	$96,458	$100,443	$297,469	$307,763

Risk and Uncertainties

The Company generates the majority of its revenue from sales of services and products to customers in the architectural, engineering, construction and building owner/operator (AEC/O) industry. As a result, the Company’s operating results and financial condition can be significantly affected by economic factors that influence the AEC/O industry, such as non-residential construction spending, GDP growth, interest rates, unemployment rates, and office vacancy rates. Reduced activity (relative to historic levels) in the AEC/O industry would diminish demand for some of ARC’s services and products, and would therefore negatively affect revenues and have a material adverse effect on its business, operating results and financial condition.

As part of the Company’s growth strategy, ARC intends to continue to offer and grow a variety of service offerings, some of which are relatively new to the Company. The success of the Company’s efforts will be affected by its ability to acquire new customers for the Company’s new service offerings, as well as to sell the new service offerings to existing customers. The Company’s inability to successfully market and execute these relatively new service offerings could significantly affect its business and reduce its long term revenue, resulting in an adverse effect on its results of operations and financial condition.

2. Earnings per Share

The Company accounts for earnings per share in accordance with ASC 260, Earnings Per Share. Basic earnings per share is computed by dividing net income attributable to ARC by the weighted-average number of common shares outstanding for the period. Diluted earnings per common share is computed similarly to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if common shares subject to outstanding options and acquisition rights had been issued and if the additional common shares were dilutive. Common share equivalents are excluded from the computation if their effect is anti-dilutive. For the three and nine months ended September 30, 2017, 5.3 million common shares were excluded from the calculation of diluted net income attributable to ARC per common share, because they were anti-dilutive. For the three and nine months ended September 30, 2016, 3.0 million and 4.4 million common shares were excluded from the calculation of diluted net loss attributable to ARC per common share, respectively, because they were anti-dilutive. The Company's common share equivalents consist of stock options issued under the Company's stock plan.

Basic and diluted weighted average common shares outstanding were calculated as follows for the three and nine months ended September 30, 2017 and 2016:

	Three Months Ended September 30,	Nine Months Ended September 30,

	2017	2016	2017	2016
Weighted average common shares outstanding during the period—basic	45,834	45,599	45,756	46,055
Effect of dilutive stock options	—	590	—	—
Weighted average common shares outstanding during the period—diluted	45,834			